

CITY AUDITOR'S OFFICE



SPECIAL REPORT

VENDOR / EMPLOYEE FILE REVIEW

Report No. CAO 2500-0405-07

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BACKGROUND

The City Auditor's Office on a continuous cycle utilizes audit software and techniques to identify anomalies that may indicate improper activities. We utilize different city databases to perform tests to identify unusual transactions and circumstances. After identifying the anomaly, we investigate the circumstances to determine if the unusual situations are explained satisfactorily. As a natural result of this activity we may identify issues that should be noted and corrected.

We reviewed data in the vendor file and compared data elements in that file with selected elements in the employee file. We were looking for inappropriate employee/vendor relationships. An employee who is also a vendor does not necessarily indicate an inappropriate relationship. Many employees and ex-employees appear on the vendor file because this is the method for reimbursement for travel and mileage expenses. Other employees appear in the vendor file because they perform work for the City as a vendor.

OBJECTIVES

Our objectives included the following:

- Identify and examine anomalies requiring further investigation,
- Refer any irregularities for appropriate action,
- Identify opportunities to improve the reliability of the data,
- Report the results of work completed.

SCOPE AND METHODOLOGY

Our work was performed in accordance with applicable generally accepted governmental auditing standards. The scope of the study of internal control was limited to assessing the general controls surrounding the specific issues addressed. General procedures included:

- Interviewing personnel;
- Interviewing appropriate non-city personnel;
- Reviewing records, reports, and other applicable documents;

FINDINGS AND RECOMMENDATIONS

We identified some matches between the vendor and employee files. The majority of the matches were City employees who were also listed in the vendor file because of reimbursement for mileage, travel, or other legitimate expenses. However, the issues we did find include:

- One match that could not be validated between an ex-employee and his business. The person is no longer an employee and the business is no longer in existence.
- Four instances that noted employee contractors were utilized without a formal selection process, written justification, or at least documented supervisory review and approval.
- One instance that noted an employee who was also a contractor was utilized without a formal process to identify potential conflicts of interest.

Other issues were identified and discussed with management. They were deemed less significant for reporting purposes.

We noted the following related to the data and outside employment by city employees.

1. CONSISTENT DATA INPUT

Criteria:

- Data input in the vendor file and other related files should be clear, comprehensive, and consistent for accuracy.

Condition:

- Finance and Business Services (Purchasing and Contracts, and Accounting) and Human Resources employ different standardized guidelines for entering data into city systems. While these guidelines meet the needs of each organization they make analysis of the data files difficult because they create inconsistent data for comparison

Cause:

- Differing guidelines exist for inputting information into various files that generate transactions.

Effect:

- Difficulty in analysis between vendor and employee files.

Recommendation:

1. Finance and Business Services (Purchasing and Contracts, Accounting, Business Services), Human Resources, and Information Technologies should consider updating and standardizing guidelines for entering data into city systems to make analysis easier.

2. EMPLOYEE CONTRACTORS

Criteria:

- Proper controls surrounding the selection and evaluation of employee contractors reduce potential conflicts of interest.
- **Outside Employment No: 3.12** – City employees shall not work, engage, or invest in any outside employment, venture, or transaction in the following situations:
 1. It is incompatible with the proper discharge of the employee's duties or the City's official business;
 2. It might create a conflict of interest with the employee's functions within the City;
 3. It might impair the employee's or the City's efficiency, or if it might impair an employee's independence of judgment in the performance of official duties.
- Proper oversight in the selection of employee contractors protects against favoritism and unfair treatment.

Condition:

- In four instances, we noted employee contractors were utilized without a formal selection process, written justification, or at least documented supervisory review and approval.
- In one instance, we noted an employee who was also a contractor was utilized without a formal process to identify potential conflicts of interest.

Cause:

- No written formal system exists to assure that an employee is evaluated for potential conflicts of interest.
- No formal written system exists to give relative assurance that the City is protected against favoritism, unfair or preferential treatment.

Effect:

- Relative assurance does not exist that employees acting as vendors are in compliance with appropriate policies or receive favoritism or preferential treatment.

Recommendations:

1. Purchasing and Contracts should establish and document a procedure to refer employee contractors to Human Resources so an evaluation of potential conflicts of interest, and compliance with appropriate policies can be addressed
2. Human Resources should evaluate and improve the process to make employees aware that they must notify Human Resources if they are involved as an employee contractor

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3. OUTSIDE EMPLOYMENT DOCUMENTATION

Criteria:

Outside Employment Request No: HR.10

PROCEDURE

The Outside Employment Request form requires the following information and authorizations:

- Employee name, Supervisor's name, Initiating department, Platoon (Fire Department only), Position title, Employee's signature, Division, and Date

Outside Employer

- Name, Employee's job title, Business license number, Job duties, and Nature of business

Required Authorizations (Signatures)

- Department Director and Human Resources Director

Condition:

We reviewed 30 of the 318 employees from the Outside Employment Request Log dated December 9, 2003. None of the forms in our sample were signed by the Human Resources Director, the forms were signed by the Human Resources Manager of Employee and Organizational Services.

Of the 30 Outside Employment Request Forms reviewed, many were incomplete because they did not include:

- Date,
- Business license number when needed,
- Supervisor's name,
- Address of the outside employer,
- Phone number of the outside employer,
- Nature of the business,
- Job title, and
- Job duties.

Cause:

- Forms were not in compliance with existing policy and procedure.

Effect:

- Existing policies and procedures are not being enforced.

Recommendations:

1. Human Resources should either change the policy and procedure or change who authorizes the Outside Employment Request.
2. Human Resources should carefully review the Outside Employment documentation and ensure that existing policy and procedures are followed.

Management Responses

1. CONSISTENT DATA INPUT

Item 1: Finance and Business Services (Purchasing and Contracts and Accounting Operations), Human Resources and Information Technology will meet to review data input standardization guidelines and, where possible, develop and implement improvements that would improve capability for analysis of employee and vendor data.

2. EMPLOYEE CONTRACTORS

Items 1 & 2: Purchasing and Contracts will modify the supplier profile form to specifically request a supplier to disclose if a principal in the firm is an employee of the City of Las Vegas and establish a field in the database to capture this information. Purchasing and Contracts will establish a practice of submitting the Supplier Profile form to Human Resources as notification of such outside employment.

Human Resources will partner with Finance and Business Services' Purchasing and Contracts Division to address the findings concerning the audit recommendations regarding this issue.

3. OUTSIDE EMPLOYMENT DOCUMENTATION

Items 1 & 2: Human Resources staff has already made changes in the Outside Employment form to address the issue of compliance with established procedure. Human Resources will also establish internal practices to ensure that additional recommendations concerning the Outside Employment form are implemented.